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ABSTRACT

Evidence overwhelmingly shows that providing workers with advance notice of layoffs generates substantial benefits (to displaced workers, their families, local communities, and the economy in general) that vastly outweigh any reasonable estimates of costs. Advance notice allows displaced workers to find work prior to their date of displacement, reducing the probability that they will suffer unemployment and also moderating temporary increases in area unemployment rates. The reduction in joblessness and the greater earnings that result were determined for male and female blue- and white-collar workers. The estimates imply substantial unemployment insurance savings and greater earnings for displaced workers. In the last year studied (1986), the number of workers who received unemployment benefits because of a job loss was 772,000. The savings of an estimated 3.8 fewer weeks of joblessness at the average weekly benefit of $140 would be $410 million, which is double the current costs of displaced worker programs. The most in-depth study of business practice regarding advance notice showed that the median notice to white-collar workers was 14 days, to union blue-collar workers was 14 days, and to nonunion blue-collar workers was 2 days in 1983 and 1984. Recent studies show that the productivity of a notified work force does not significantly decrease and that creditors and customers tend not to desert the company. (CML)

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Economic Policy Institute

Briefing Paper

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ADVANCE NOTICE OF PLANT CLOSINGS: BENEFITS OUTWEIGH THE COSTS

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TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

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by Larry Mishel

Available evidence now overwhelmingly shows that providing workers with advance notice of layoff generates substantial benefits to displaced workers, their families, local communities, and the economy in general. These benefits vastly outweigh any reasonable estimate of costs. By shortening the duration of unemployment after layoff, advance notice stems the loss of worker incomes and saves the economy unemployment benefits and social costs we would otherwise have to pay.

In a recent survey for the W.E. Upjohn Institute, Professors Ronald Ehrenberg and George Jakubson of Cornell University examined all the relevant literature on advance notice and concluded:

> The literature surveyed here overwhelmingly suggests that advance notice can facilitate labor market adjustments by allowing displaced workers to find employment prior to their date of displacement. Advance notice appears to reduce the probability that displaced workers suffer any spell of unemployment and thus also moderates temporary increases in area unemployment rates.[1]

Moreover, according to Ehrenberg and Jakubson, most studies have <u>understated</u> the benefits:

> In a number of surveyed studies "advance notice" included notice of a very short duration and thus their results likely understate the effects of mandated notice of

longer duration. The data used in all the underlying studies also did not permit analyses of whether advance notice of pending displacements can lead to actions (e.g., reorganization, wage concessions, employee ownership) that help avert displacement.[2]

A more recent study by Swaim and Podgursky, funded by the National Science Foundation and the American Statistical Association, substantially improves on earlier research by explicitly focusing on job search prior to displacement rather than limiting their analysis, as do other studies, to job search after displacement.[3] Swaim and Podgursky found that advance notice significantly shortens joblessness for most labor force groups. Their main findings are shown in Table 1.[4]

Table 1: Reduced Joblessness and Increased Pay Due to Various Levels of Advance Notice

	Weeks of Advance Notice							
	Male				Female			
	0	4	8	12	0	4	8	12
Blue Collar								
Reduction in Joblessness (weeks)	0	1.9	3.7	5.5	0	1.2	2.3	3.4
Gross Benefits*	$0	$682	$1335	$1967	$0	$254	$504	$749
White Collar & Service								
Reduction in Joblessness (weeks)	0	2.2	4.3	6.1	0	2.5	4.8	7.0
Gross Benefit*	$0	$966	$1857	$2674	$0	$699	$1363	$1994

* The value of working more weeks at the average re-employment earnings.

The reduction in joblessness and the greater earnings that result (from working more weeks) is shown for male and female blue and white-collar workers. For instance, the average male blue collar worker receiving eight weeks notice can be expected to find work 3.7 weeks sooner than if she or he had not received notice. The extra work would yield the worker $1,335 more in earnings. For all displaced workers, a legislated requirement of eight weeks advance notice would shorten joblessness by 3.8 weeks (based on a weighted average of each labor force group) and provide the average displaced worker with $1,320 in extra earnings.[5]

These estimates also imply substantial unemployment insurance savings and greater earnings for displaced workers. The latest BLS survey of displaced workers shows that 3,514,000 workers lost their jobs in 1985.[6] A conservative estimate would be that only one-third of all displaced workers (or 1,170,000) will benefit from the current legislation because it only applies to large facility closures and large layoffs. The average gross benefit of eight weeks notice ($1320), therefore, suggests that displaced workers in 1985 would have earned $1.5 billion more because of the shorter time to find work. However, not every displaced worker receives or is eligible for unemployment insurance. In the last year for which we have data (1986), the proportion of workers unemployed because of a job loss (as opposed to quitting or leaving the workforce) that received unemployment benefits was 66 percent.[7] Thus, there were

potential unemployment insurance savings for 772,000 workers (66% of 1,170,000). The savings for 3.8 fewer weeks of joblessness at the average weekly benefit of $140 would be $410 million.[8] These savings are double the current costs of displaced worker programs and over 40 percent of what the Administration requested ($980 million) for the new dislocated worker program contained in the trade bill.

Advance Notice and Adjustment

The goal of any adjustment policy must be to facilitate the rapid reemployment of dislocated workers in appropriate jobs. Successful adjustment means that there is limited or no unemployment experienced between jobs and that new jobs fully utilize dislocated workers' skills and allow them to maintain, as best as possible, their prior standard of living. A successful adjustment process also involves limiting a worker's income loss during the transition.

Adjustment programs also must be tailored to fit individual needs. Many workers need job search skill training. Others require remedial education, classroom vocational education, or on-the-job training programs. A job development effort to place workers in available jobs is present in almost all adjustment programs.

The necessary ingredient in all of these efforts is time for planning, for implementation, and for recruiting. And, above

all, time for the individual worker to develop his or her individual strategy for reemployment. Thus, the need for advance notice. As a recent Office of Technology Assessment (OTA) report noted:

> The best time to start a project for displaced workers is before a plant closes or mass layoffs begin; advance notice makes early action possible -- although it does not guarantee it. Some of the advantages of early warning are: 1) it is easier to enroll workers in adjustment programs before they are laid off; 2) it is easier to enlist managers and workers as active participants in displaced workers projects before the closing or layoff; 3) with time to plan ahead, services to workers can be ready at the time of layoff, or before; and 4) with enough lead time, it is sometimes possible to avoid layoffs altogether.[9]

The report of the Secretary of Labor's Task Force on Economic Adjustment and Dislocation stresses that "advance notification is an essential component of a successful adjustment program."[10]

Recent reports by business organizations such as the Conference Board and the Committee for Economic Development also point out the importance of advance notice:

> Companies should provide as much notice as possible of decisions affecting jobs, particularly in cases of plant closings, work transfers, or automation. Advance notice allows employees the time to adjust, and management the time to plan and implement business moves in a way that minimizes hardship. Companies should also take steps to notify the local community and state agencies of pending plant closings in order to allow time for a coordinated response. (emphasis in original).[11]

> Both survey and interview participants note that advance notice is beneficial to employees and is an essential element in a plant closure program....Notice is also critical because a functioning plant is, perhaps, the program's single most important resource.[12]

Advance notice of an impending layoff is beneficial for other reasons as well. Notice provides time to explore alternatives to layoffs or to attract new owners or negotiate a worker buyout. Providing advance notice is also demanded by simple human decency so that a worker and his or her family can attempt to plan for such a traumatic and life-altering event. And, as the OTA reports:

> Many company managers see advance notice as a benefit to the company itself, by improving relations with the remaining workers, enhancing the company's reputation in the community, and conforming with company values of fair and ethical treatment of its employees.[13]

Business Practices Regarding Advance Notice

Actual business practices fall far short of what is needed to give workers time to adjust. The most in-depth study of notice practices is offered by the General Accounting Office (GAO). The GAO surveyed large establishments (those with 100 employees or more) which experienced a mass layoff or plant closure in 1983 and 1984.[14]

The GAO survey found that the median length of notice provided to workers was 7 days. The median notice to white collar workers was greater -- 14 days. Union blue collar workers also received greater than average notice -- 14 days. The median notice for nonunion blue collar workers was just 2 days.

Tables 2 and 3 provide additional results from the GAO survey. Nearly one-third of the establishments experiencing permanent layoffs provided no notice to their workforce and

nearly two-thirds provided two weeks or less notice (Table 2, last column). Further breakdowns by occupation and type of layoff (job loss or closure) indicate that the vast majority of establishments provided less than a month's notice to their blue or white-collar workers even when a full facility closure was contemplated.

Table 2: Provision of Advance Notice by Occupation and Type of Job Loss

	Blue Collar		White Collar		All Occupations
	Permanent Layoff	Facility Closure	Permanent Layoff	Facility Closure	All Layoffs
No Notice	32%	29%	29%	32%	32%
1-14 days	39	24	36	34	34
15-30 days	14	14	18	15	15
31-90 days	12	22	12	14	14
91+ days	3	11	5	5	5

Source: General Accounting Office

Table 3 shows that larger facilities did not provide more notice than medium-size facilities.

Table 3: Provision of Advance Notice by Size of Facility

	Medium 100-249 Employees	Large 250+ Employees
No Notice	35%	24%
1-14 days	29	43
15-30 days	15	15
31-90 days	16	11
91+ days	5	7

Source: General Accounting Office

The GAO concludes that:

> While major business and labor organizations agree that to be effective reemployment assistance should be in place prior to dislocation, few employers provided advance notice sufficient to establish such programs.[emphasis added][15]

A recent survey by the Bureau of Labor Statistics of mass layoffs in seven states suggests that businesses provide even less notice than indicated by the GAO report.[16]

Table 4: Percent of Mass Layoff Events Surveyed*

No Notice	64%
1-14 days	16
15-30 days	6
31-90 days	10
91+ days	4
Total	100

Source: Sharon P. Brown, "How Often Do Workers Receive Advance Notice of Layoffs," Monthly Labor Review (June 1987), Table 6, general notice.

Measured against OTA's conclusion that it "takes about 2 to 4 months work in advance to prepare a comprehensive adjustment program," it is clear that current business practices fall short of what is needed.[17] The recent Department of Labor Task Force agrees, saying:

> It is also true that a recent General Accounting Office survey indicates that in too many plant closings and permanent mass layoffs, insufficient advance notice of job loss is given to make possible an optimal private and public role in the reemployment process.[18]

The Costs

Those who oppose a legislated notice requirement have contended that mandatory notice is a burdensome government regulation that is harmful to business. In particular, opponents frequently claim that productivity will fall after notice is given, thus harming the company and speeding a shutdown. All the recent serious studies, however, contradict this assertion. Indeed, many note that productivity has frequently risen following a notification of a closing.

For instance, the Conference Board study reports that company managers responsible for closure believed that "advance notice, combined with generous severance plans, reduces pressure and anxiety, generates good will, and contributes to improved productivity."[19]

The recent CED report states, "[s]ome companies are reluctant to provide notice, fearful of employee disruptions and the fall-off in productivity. Experience, however, suggests the contrary."[20]

Likewise, the Department of Labor Task Force reports that "many of the fears regarding advance notification have not been realized in practice. In this regard the Task Force found no evidence that the productivity of the workforce is adversely affected during the notification period."[21]

Recent research by Ehrenberg and Jakubson examined whether high productivity workers are more likely to quit than other workers following notification. It concluded "we find no

evidence that advance notice will lead a firm's most productive workers to quit, thereby disrupting a firm's operations in its final weeks."[22]

The recent OTA report examines the allegation about trouble with workers and reduced productivity and states "[t]here seems to be general agreement that this is a myth."[23] OTA reports that every business representative at one of their workshops agreed that worker morale and productivity did not suffer with advance notice of layoffs or closings.

The OTA report examines other claims that advance notice is burdensome. Regarding the potential loss of customers and increased credit pressure, OTA reports that "it is difficult to find actual occurrences of customer or creditor desertion following notice" and that "while loss of credit is a potential problem for firms, advance notice can benefit creditors and customers."[24] Moreover, OTA cites evidence that dire financial emergency seems to be an infrequent factor in plant closings and large layoffs.[25] OTA concludes that "it is more difficult to find evidence of the costs than evidence of the benefits of advance notice."[26]

Thus, all of the impartial reviews of the advance notice issue have concluded that the costs of notification requirements are minimal. This is confirmed by the exaggeration engaged in by opponents of advance notice in order to support their claims that there are significant costs. For instance, the recent Nathan Associates study[27] -- paid for and frequently cited by opponents

of advance notice -- suggests that firms will have to add personnel (costing $1 billion!) to keep track of closings, as if all firms do not already closely keep track of their plants, both those that they are closing and those that they are keeping open. Even more of an exaggeration is the effort to include penalty costs for firms which fail to comply with the law. As GAO's analysis of the Nathan Associates study indicates, it is unclear why firms will suffer these penalties after spending $1 billion on personnel to monitor facility closures.[28] It is also questionable whether penalties for breaking the law should be considered a social cost of notice legislation. Ironically, Nathan's own estimate of the business losses due to high productivity workers quitting following notification is trivially small, just $6 million, when compared to the $1.5 billion in wages gained by workers from finding work sooner. In any event, the GAO's review of the Nathan study concludes, "the methodology and analysis used by Nathan Associates to construct cost and employment estimates are inadequate to support the study's conclusion."[29]

In sum, any fair-minded evaluation of the evidence suggests that the benefits of advance notice requirements are substantial and that they vastly outweigh any costs.

May 1988

Endnotes

1. Ronald G. Ehrenberg and George H. Jakubson, "Advance Notice Provisions in Plant Closings Legislation: Do They Matter?," paper presented at the American Economic Association Meetings, December 1987, p. 11.

2. Ibid, p.11.

3. Paul Swaim and Michael Podgursky, "Advance Notice and Job Search: The Value of an Early Start," presented at the Eastern Economic Association Meetings, March 1988.

4. Ibid, Table 3. Based on changes in weeks of joblessness of the average worker in the 1984 and 1986 BLS Displaced Worker Surveys.

5. These computations are based on simulations of the experience of the average worker in each labor force group. These estimates understate earnings due to notice to the extent that advance notice facilitates adjustment programs which raise reemployment earnings or permits shorter joblessness and security of job search prior to displacement that leads to higher reemployment earning

6. See Larry Mishel, "Dislocation: Who, What, Where, and When," paper presented at the Eastern Economics Association Meetings, March 1987, Table 7. Data refer to all adult workers displaced in 1985 computed from the 1986 Displaced Worker Survey except those displaced for "other reasons" or the end of a seasonal job.

7. Computed from Tables B-41 and B-42 in the Council of Economic Advisers, Economic Report of the President, February 1988. This figure takes into account ineligibility and exhaustion.

8. Ibid, Table B-42 for unemployment compensation level.

9. Office of Technology Assessment, Plant Closing: Advance Notice and Rapid Response -- Special Report, U.S. Government Printing Office, September 1986, p.13.

10. Report of the Secretary of Labor's Task Force on Economic Adjustment and Worker Dislocation, Economic Adjustment and Worker Dislocation in a Competitive Society, December 1986, p.22.

11. Work and Change: Labor Market Adjustment Policies in a Competitive World, A Statement by the Research and Policy Committee of the Committee for Economic Development, December 1986.

12. Berenbein, Ronald E. Company Programs to Ease the Impact of Shutdowns, Conference Board Report 878, 1986, p.7.

13. Office Technology Assessment, Plant Closing, p.13.

14. General Accounting Office, Plant Closings: Limited Advance Notice and Assistance Provided Dislocated Workers, July 1987.

15. August 13, 1987 letter accompanying General Accounting Office, ibid.

16. Based on establishments reporting layoffs in the last half of 1985 in Alabama, Arizona, Arkansas, Massachusetts, Texas, Washington, and Wisconsin. See Sharon P. Brown, "How Often Do Workers Receive Advance Notice of Layoffs? Monthly Labor Review (June 1987), Vol 110 No 6, pp.13-17.

17. Office of Technology Assessment, Plant Closing, p.23.

18. Secretary of Labor's Task Force, Economic Adjustment and Worker Dislocation in a Competitive Society, p.23.

19. Berenbein, Company Programs to Ease the Impact of Shutdowns, pp. 7-8.

20. Committee for Economic Development, Work and Change, p.23.

21. Secretary of Labor's Task Force, Economic Adjustment and Worker Dislocation in a Competitive Society, p.23.

22. Ehrenberg and Jakubson, Advance Notice Provisions in Plant Closing Legislation: Do They Matter, p.11.

23. Office of Technology Assessment, op.cit. p.22.

24. Ibid, p.2.

25. Ibid, p.22.

26. Ibid, p.3.

27. Robert R. Nathan Associates, The Private and Public Sector Costs of Proposed Mandatory Advance Notification Legislation, January 1988.

28. General Accounting Office, Plant Closings: Evaluation of Cost Estimate of Proposed Advance Notice Requirement, March 1988, p.5.

29. Ibid, p.1.